

THIVERSITY OF TEXAS AT ARLINGTON LIBRAR



1986 ANNUAL REPORT



he Corporation

Dillard Department Stores, Inc., is a regional group of traditional department stores operating 115 stores at year end: 41 in Texas, 16 in Missouri, 14 in Oklahoma, 11 in Arizona, 8 in Arkansas, 8 in Kansas, 6 in Louisiana, 4 in New Mexico, 3 in Nevada, 3 in Tennessee and 1 in Illinois. The stores vary from 40,000 square feet to 380,000 square feet in size. The stores feature branded goods in the middle to upper-middle price ranges and cater to a broad spectrum of the population. Special emphasis is placed upon fashion-oriented apparel and home furnishings.

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General Information

Annual Meeting: Saturday, May 16, 1987 at 9:30 a.m. Board Room Union National Bank Capitol and Louisiana Little Rock, Arkansas 72201

Form 10-K:

Copies of the Company's 10-K Annual Report may be obtained by

written request to:
J. K. Jameson, III, Vice President
Post Office Box 486 Little Rock, Arkansas 72203

Corporate Headquarters:

900 West Capitol Avenue Little Rock, Arkansas 72201 Mailing Address: Post Office Box 486

Little Rock, Arkansas 72203 Telephone: 501-376-5200 Telex: 910-722-7322

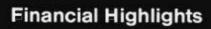
Transfer Agent and Registrar: Centerre Trust Company

St. Louis, Missouri

Listing: American Stock Exchange Ticker Symbol "DDSA"



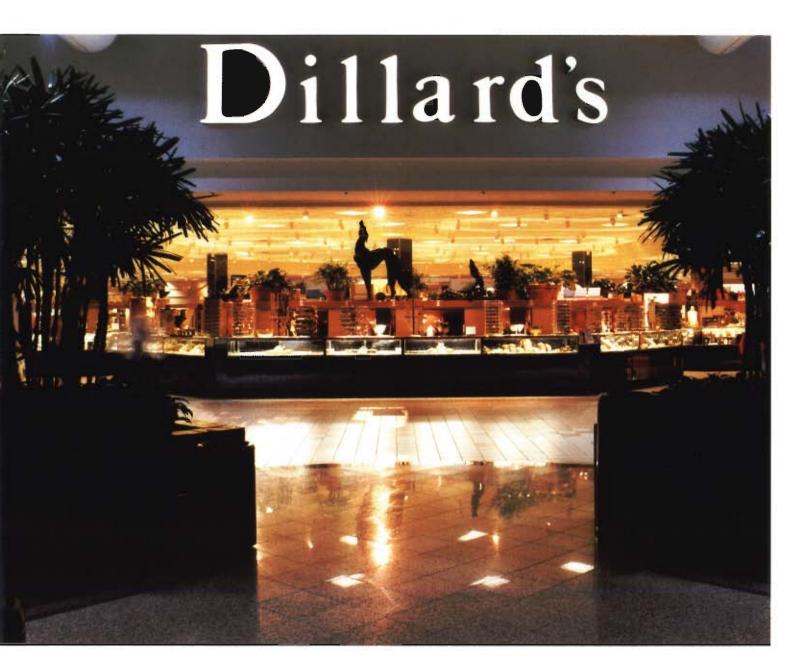
Front Cover Photograph Camelview Plaza Scottsdate Arizona



(Dollars in thousands except per share amounts)	1986 1985	
Net Sales Income Before Income Taxes Net Income Per Common Share Average Number of Common	\$ 1,851,423 131,858 74,458 2.35	\$ 1,601,357 114,903 66,903 2.29
Shares Outstanding Book Value Per Share Dividend Per Common Share Number of Stores in Operation	31,692,698 17.31 .12	29,206,490 12.42 .105
at Year End Number of Employees — Average Number of Stockholders at Year End	115 18,412 2,911	101 16,010 2,524

Stock Prices and Dividends By Quarter

	Sale	s Prices — C	ommon Shar	es	Per S	
Quarter	1986 1985		1986		1986	1985
High Low	High	Low				
First	\$44.37	\$37.50	\$31.06	\$21.81	\$.030	\$.025
Second	45.12	34.25	38.12	28.37	.030	.025
Third	41.87	32.00	34.75	30.12	.030	.025
Fourth	43.75	37.62	44.50	32.12	.030	.030





Letter To Stockholders



For the year ended January 31, 1987, Dillard's achieved record results for both sales volume and net income. Net sales for the year were \$1,851,423,000, 15.6% above the previous year sales of \$1,601,357,000. Net income for the year was \$74,458,000, 11.3% above the previous year's net income of \$66,903,000. Net income per share was \$2.35 compared to \$2.29 per share last year. Average shares of common stock outstanding for the 1986 year were 31,692,698 versus 29,206,490 for the 1985 year.

These results were accomplished under extremely difficult circumstances through a portion of our trade territory. The economy in the oil producing areas of our territory began to deteriorate very rapidly in the latter part of the first quarter following the steep reduction in oil prices. This condition continued for the balance of our year. Taking into consideration the economic climate to which we were exposed, I feel that our results for the year were satisfactory and reflected an above average performance

by our company.

On March 3, 1986, we acquired 10 stores that formerly were Macy's Midwest Division. We combined the Macy Wichita store with our Fort Worth Division, which was then operating two stores in Wichita. The remaining 9 Macy stores were combined with our existing St. Louis - Kansas City Division. The purchase of these stores enlarged our position in Kansas City and Wichita and facilitated our entry into Topeka, Kansas.





During 1986 we opened new stores in Beaumont, Texas; Sherman, Texas; Alexandria, Louisiana; Flagstaff, Arizona; Scottsdale, Arizona; two stores in Tulsa, Oklahoma, and replacement stores in Pine Bluff, Arkansas and Corpus Christi, Texas.

Additional stores were purchased in Lubbock, Texas; San Angelo, Texas and Port Arthur, Texas.

One Macy store (Oak Park, Kansas City), the new Scottsdale store and the purchased Lubbock, Texas store were consolidated into existing stores we had in each location.

During 1987 we will open six additional new stores located in Salina, Kansas; Kansas City, Missouri; Memphis, Tennessee; Muskogee, Oklahoma; Manhattan, Kansas and St. Louis, Missouri. The new space planned for 1987 will be approximately 638,000 square feet.

On April 3, 1986 we issued 2,949,121 new shares of our Class A common stock that were sold in an underwritten public offering and concurrent private placement. The public offering price was \$43.50 and the net proceeds to the company were \$123,492,000. The proceeds from the equity sale were more than sufficient to fund the net purchase price of the Macy store acquisition.

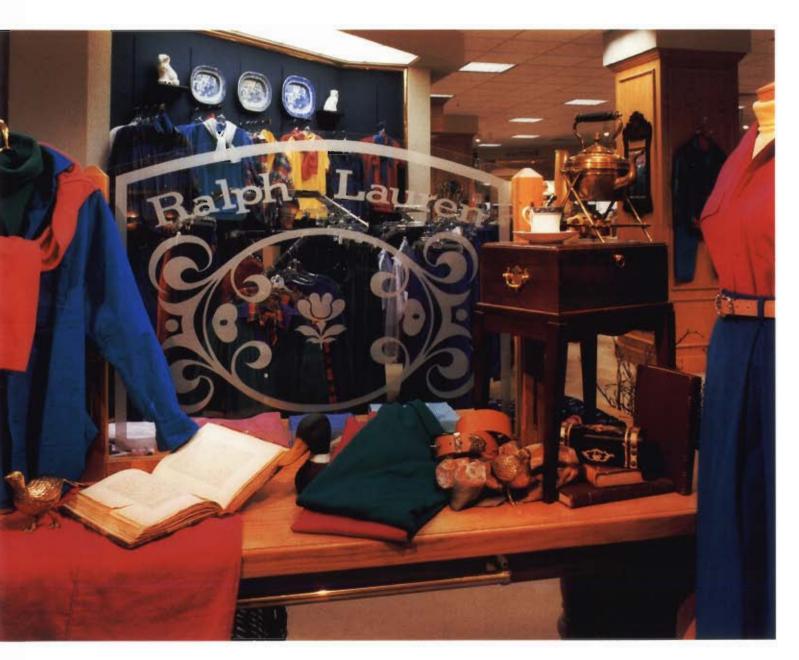
During 1986, we issued \$200,000,000 of notes that were sold in underwritten public offerings. \$50,000,000 8.375% notes due April 15, 1996, \$50,000,000 8.125% notes due November 1, 1993, and \$50,000,000 8.0% notes due January 15, 1999 were issued by Dillard Department Stores, Inc. An additional \$50,000,000 7.375% notes due January 15, 1992 were issued by our wholly owned unconsolidated subsidiary, Dillard Investment Co., Inc.

As we leave 1986 behind us, we can report to you that we will continue to represent to our customers department stores that are well located, housed in clean, well equipped and tastefully presented surroundings offering to those customers complete selections of fashion merchandise at competitive prices. At this time we can convey to you that the economic shock and fear that was widespread in some of our trade territory during 1986 is lessening and we are guardedly optimistic that we will see improving economic trends in 1987. Additionally, we can report to you that at the end of 1986 our company's financial condition is the strongest in its history.

William Dillard

Sincerely,

William Dillard



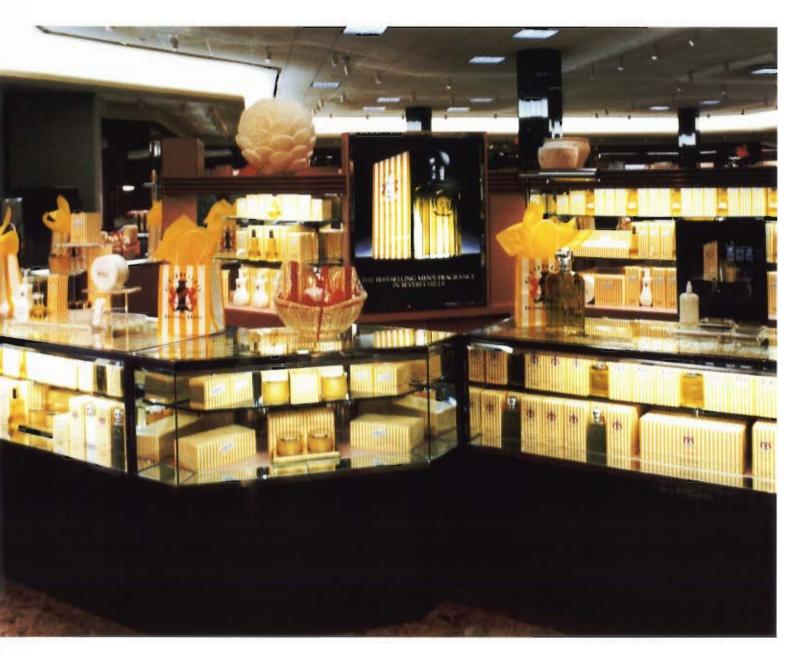
St. Louis Galleria St. Louis, Missouri



New Stores Opened—1986

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February 19, 1986	A 160,000 square foot store in Parkdale Mall at Beaumont, Texas.
March 12, 1986	A 60,000 square foot store in Kensington Galleria at Tulsa, Oklahoma.
March 19, 1986	A 70,000 square foot store in Midway Mall at Sherman, Texas.
July 30, 1986	A 100,000 square foot store in the Pines Mall at Pine Bluff, Arkansas (replacing a store closed).
August 6, 1986	A 200,000 square foot store in Padre Staples Mall at Corpus Christi, Texas (replacing a store closed).
August 13, 1986	A 100,000 square foot store in Alexandria Mall at Alexandria, Louisiana.
August 20, 1986	A 160,000 square foot store in Eastland Mall at Tulsa, Oklahoma.
October 8, 1986	A 70,000 square foot store in Flagstaff Mall at Flagstaff, Arizona.
November 14, 1986	A 118,000 square foot store in Camelview Plaza at Scottsdale, Arizona (consolidated with an existing store).



Padre Staples Mall Corpus Christi, Texas



New Stores Acquired - 1986

March 3, 1986	Macy's Midwest Division, R.H. Macy & Co., Inc. Kansas City, Missouri - Kansas Antioch Shopping Center Bannister Mall	79,000 square feet 165,000 square feet
	Indian Springs Shopping Center Metro North Mall Mission Shopping Center	97,000 square feet 161,000 square feet 120,000 square feet
	Country Club Plaza Oak Park Center	72,000 square feet
	(consolidated with an existing store) The Landing	171,000 square feet
	(subsequently closed) Topeka, Kansas	89,000 square feet
	Downtown Wichita, Kansas	125,000 square feet
	Downtown	160,000 square feet
July 14, 1986	Lubbock, Texas South Plains Mall	
	(consolidated with an existing store) San Angelo, Texas	100,000 square feet
	Sunset Mall_	48,000 square feet
July 28, 1986	Port Arthur, Texas Central Mall	60,000 square feet







New Stores To Be Opened-1987



A 70,000 square foot store in Central Mall at Salina, Kansas.

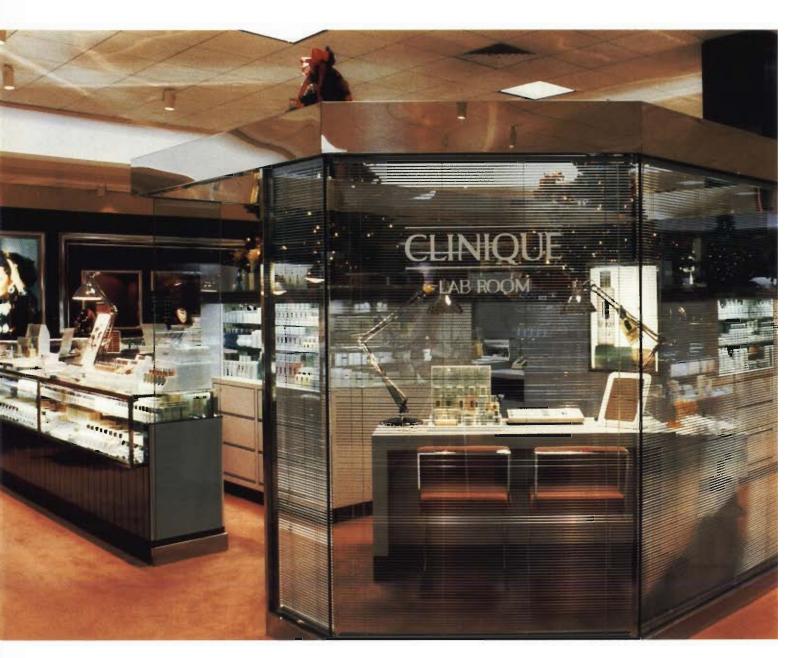
A 150,000 square foot store in AT&T complex at downtown Kansas City, Missouri.

A 140,000 square foot store in Hickory Ridge Mall at Memphis, Tennessee.

A 70,000 square foot store in Arrowhead Mall at Muskogee, Oklahoma.

A 70,000 square foot store in Manhattan Town Center at Manhattan, Kansas.

A 138,000 square foot store in Mid Rivers Mall at St. Peter's, Missouri.







Corporate Organization



William Dillard Chairman of the Board Chief Executive Officer

E. Ray Kemp Vice Chairman Chief Administrative Officer

William Dillard, II President Chief Operating Officer

Alex Dillard Executive Vice President

Mike Dillard Executive Vice President

J. K. Jameson, III Vice President Secretary-Treasurer

W. R. Appleby Jan E. Bolton Michael Bowen Donald C. Bradley Joe Brennan G. Kent Burnett A. B. Cannon Wynelle Chapman Drue Corbusier William Cummins James E. Darr, Jr. David M. Doub Charles E. Franzke John A. Franzke T. R. Gastman Bernie Goldstein Kathryn Mayes Hawker Charles A. Hobbs Louis V. McGaugh Michael S. McNiff Harry D. Passow C. F. Plunkett M. E. Ritchie, Jr. Dick Roberds J. W. Sherburne **Burt Squires** Joseph W. Story J. B. Wilson

Vice Presidents

Operating Divisions

FORT WORTH

J. W. Sherburne Chairman

W. R. Appleby President

Drue Corbusier Vice President-Merchandising

William Cummins Vice President-Merchandising

James R. Gibson Vice President-Stores

Roy J. Grimes Vice President-Stores

Ken Moore Vice President-Stores

H. Gene Baker Vice President-Sales Promotion

LITTLE ROCK

Mike Dillard Chairman

John A. Franzke President

David M. Doub Vice President-Merchandising

Burt Squires Vice President-Merchandising

Nelson Hensley Vice President-Operations

Ken Eaton Vice President-Sales Promotion

PHOENIX

G. Kent Burnett Chairman

Bernie Goldstein President

Joe Brennan Vice President-Merchandising

Michael S. McNiff Vice President-Merchandising

Bonnie Burton Vice President-Sales Promotion

Operating Divisions com

ST. LOUIS

T. R. Gastman Chairman

Harry D. Passow President

Kathryn Mayes Hawker Vice President-Merchandising

Richard Eagan Vice President-Stores

Ted Westmeyer Vice President-Sales Promotion

SAN ANTONIO

Charles E. Franzke Chairman

J. B. Wilson President

Wynelle Chapman Vice President-Merchandising

Dick Roberds Vice President-Merchandising

Gat Lemoine Vice President-Stores

Jim Schatz Vice President-Stores

Bill Warner Vice President-Sales Promotion

Board of Directors

William Dillard Chairman of the Board

Clarence Barksdale Chairman of the Board and Chief Executive Officer Centerre Bank N.A. St. Louis, Missouri

James D. Berry Vice Chairman Directors Executive Committee RepublicBank Corporation Dallas, Texas

Calvin N. Clyde, Jr. President and General Manager T. B. Butler Publishing Co., Inc Tyler, Texas

Board of Directors (con)

Will D. Davis Partner, Heath, Davis & McCalla Attorneys Austin, Texas

Alex Dillard Executive Vice President

Mike Dillard Executive Vice President

William Dillard, II President

Dr. A. C. R. Dreesmann Chairman of the Board and Chief Executive Officer Vendex International N.V. Amsterdam, The Netherlands

William B. Harrison, Jr. Executive Vice President Chemical Bank New York, New York

John H. Johnson President and Publisher Johnson Publishing Company, Inc. Chicago, Illinois

G. Larry Kelley Chairman of the Board and Chief Executive Officer Pickens-Bond Construction Co. Little Rock, Arkansas

E. Ray Kemp Vice Chairman of the Board

Anne M. McCarthy Retired Vice President-Investments New England Mutual Life Insurance Co. Boston, Massachusetts

John K. Riedy Retired Chairman of the Board INTERCO, Inc. St. Louis, Missouri

B. Finley Vinson Chairman Emeritus First Commercial Corp Little Rock, Arkansas





Stores in Operation-1986





Flagstaff

Flagstaff Mall (Oct., 1986), 70,000 Sq. Ft. With Penney's and Sears

Phoenix Area

Camelview Plaza (Nov., 1986), and Fashion Square (Sept., 1984), 190,000 Sq. Ft. With Bullock's and Goldwaters
Christown (June, 1985), 132,000 Sq. Ft. With Broadway, Penney's and Ward's Fiesta Mall (Sept., 1984), 125,000 Sq. Ft. With Sears, Broadway and Goldwaters
Metro Center (Sept., 1984), 182,000 Sq. Ft. With Sears, Broadway, Goldwaters and Joske's Paradise Valley (Sept., 1984), 125,000 Sq. Ft. With Penney's and Goldwaters
Park Central (Sept., 1984), 166,000 Sq. Ft. With Penney's and Goldwaters

Thomas Mall (Sept., 1984), 190,000 Sq. Ft. With Ward's

Westridge Mall (Sept., 1984), 124,000 Sq. Ft. With Penney's and Sears

Tucson

Park Mall (Sept., 1984), 98,000 Sq. Ft. With Sears and Broadway Tucson Mall (Sept., 1984), 119,000 Sq. Ft. With Penney's, Sears, Mervyn's and Broadway

ARKANSAS

Fayetteville-Springdale

Northwest Arkansas Plaza (Mar., 1972), 116,000 Sq. Ft. With Penney's and Sears

Fort Smith

Central Mall (Mar., 1985), 115,000 Sq. Ft. With Penney's and Sears

Hot Springs

Hot Springs Mall (Feb., 1982), 70,000 Sq. Ft. With Penney's and Sears

Jonesboro

Indian Mall (Oct., 1967), 75,000 Sq. Ft. With Penney's and Sears

Little Rock

Downtown (1963), 40,000 Sq. Ft. **Park Plaza** (Mar., 1965), 196,000 Sq. Ft.

North Little Rock

McCain Mall (Sept., 1972), 225,000 Sq. Ft. With Penney's and Sears

Pine Bluff

The Pines (July, 1986), 100,000 Sq. Ft. With Penney's



KANSAS

Hutchinson

Hutchinson Mall (Mar., 1985), 70,000 Sq. Ft. With Penney's

Topeka

Downtown (Mar., 1986), 125,000 Sq. Ft.

Wichita

Downtown (Mar., 1986), 160,000 Sq. Ft. **Towne East Mall** (Aug., 1975), 180,000 Sq. Ft. With Penney's and Sears

Towne West Mall (Mar., 1981), 160,000 Sq. Ft With Penney's and Ward's

LOUISIANA

Alexandria

Alexandria Mall (Aug., 1986), 100,000 Sq. Ft. With Penney's, Sears and Mervyn's

Baton Rouge

Cortana Mall (Sept., 1976), 180,000 Sq. Ft. With Penney's, Sears and Goudchaux

Bossier City (Shreveport)

Pierre Bossier Mall (Aug., 1982), 125,000 Sq. Ft. With Penney's and Sears

Monroe

Pecaniand Mail (July, 1985), 122,000 Sq. Ft. With McRae's and Penney's

Shreveport

Shreve City Center (Oct., 1970), 114,000 Sq. Ft. With Penney's

South Park Mall (July, 1975), 180,000 Sq. Ft. With Penney's and Ward's





Stores in Operation-1986





MISSOURI

St. Louis Area

Chesterfield Mall (Jan., 1984), 198,000 Sq. Ft. With Sears and Famous-Barr

Crestwood Plaza (Jan., 1984), 170,000 Sq. Ft. With Sears and Famous-Barr

Jamestown Mall (Jan., 1984), 223,000 Sq. Ft. With Sears

Northwest Plaza (Jan., 1984), 169,000 Sq. Ft. With Penney's, Sears and Famous-Barr

South County Center (Jan., 1984), 141,000 Sq. Ft.

With Penney's and Famous-Barr

St. Clair Square (Illinois) (Jan., 1984), 175,000 Sq. Ft.

With Penney's, Sears and Famous-Barr

St. Louis Centre (Aug., 1985), 204,000 Sq. Ft. With Famous-Barr

St. Louis Galleria (Jan., 1984), 245,000 Sq. Ft.

Columbia

Columbia Mall (Oct., 1985), 100,000 Sq. Ft. With Penney's, Sears and Target

Jefferson City

Capitol Mall (Mar., 1985), 70,000 Sq. Ft. With Penney's and Sears

Kansas City Area

Antioch Shopping Center (Mar., 1986), 79,000 Sq. Ft. With Sears

Bannister Mall (Mar., 1986), 165,000 Sq. Ft. With Penney's, Sears and Jones Store Co. **Independence Plaza** (Jan., 1984),

182,000 Sq. Ft.

With Sears and Jones Store Co.

Indian Springs Shopping Center (Kansas) (Mar., 1986), 97,000 Sq. Ft. With Penney's and Ward's

Metro North Mall (Mar., 1986), 161,000 Sq. Ft. With Penney's, Ward's and Jones Store Co.

Mission Shopping Center (Kansas) (Mar., 1986), 120,000 Sq. Ft.

Country Club Plaza (Mar., 1986), 72,000 Sq. Ft. With Bonwit-Teller and Sak's Fifth Avenue

Oak Park Center (Kansas) (Jan., 1984 and Mar., 1986), 380,000 Sq. Ft.

(Jan., 1984 and Mar., 1986), 380,000 Sq. Ft With Penney's and Ward's

Ward Parkway Center (Jan., 1984), 202,000 Sq. Ft. With Penney's and Ward's

Springfield

Battlefield Mall (July, 1982), 125,000 Sq. Ft. With Penney's, Sears, Famous-Barr and Ward's

NEVADA

Las Vegas

Boulevard Mall (Sept., 1984), 41,000 Sq. Ft. With Penney's, Sears and Broadway

Fashion Show Mall (Sept., 1984), 126,000 Sq. Ft. With Bullock's, Goldwaters, Neiman-Marcus and Sak's Fifth Avenue

Meadows Center (Sept., 1984), 125,000 Sq. Ft. With Penney's, Sears and Broadway

NEW MEXICO

Albuquerque

Winrock Center (Nov., 1972), 169,000 Sq. Ft. With Penney's and Ward's

Farmington

Animas Valley Mall (Oct., 1982), 70,000 Sq. Ft. With Penney's and Sears

Las Cruces

Mesilla Valley Mall (July, 1981), 70,000 Sq. Ft. With Penney's and Sears

Sante Fe

VIIIa Linda Matl (July, 1985), 70,000 Sq. Ft. With Mervyn's and Penney's

OKLAHOMA

Bartlesville

Washington Park Mall (Aug., 1984), 70,000 Sq. Ft. With Penney's and Sears

Enid

Oakwood Mall (Feb., 1984), 70,000 Sq. Ft. With Penney's

Lawton

Central Mall (Mar., 1980), 100,000 Sq. Ft. With Penney's and Sears

Midwest City (Oklahoma City)

Heritage Park Mall (Oct., 1978), 100,000 Sq. Ft. With Sears and Ward's

Norman

Sooner Fashion Mall (Aug., 1976), 67,000 Sq. Ft. With Penney's and Sears

Oklahoma City

Crossroads Mall (Oct., 1973), 193,000 Sq. Ft. With Penney's and Ward's

Penn Square (Sept., 1984), 127,000 Sq. Ft. With Ward's

Quail Springs Mail (Oct., 1980), 204,000 Sq. Ft. With Penney's and Sears

Shepherd Mall (Sept., 1967), 160,000 Sq. Ft. With Penney's adjacent to Sears

Tulsa

Eastland Mall (Aug., 1986), 160,000 Sq. Ft. With Penney's and Mervyn's

Kensington Galleria (Mar., 1986), 60,000 Sq. Ft. Promenade (Mar., 1965), 158,000 Sq. Ft. With Penney's and Mervyn's

Utica Square (Sept., 1984), 76,000 Sq. Ft. Woodland Hills Mail (Oct., 1976), 180,000 Sq. Ft. With Penney's, Sears and Sanger-Harris

TENNESSEE

Memphis

Mall of Memphis (Oct., 1981), 204,000 Sq. Ft. With Penney's and Thalhimers

Poplar Plaza Shopping Center (Mar., 1982), 120,000 Sq. Ft. With Pennev's

Raleigh Springs Mall (Mar., 1982), 149,000 Sq. Ft. With Penney's, Sears and Goldsmith's

TEXAS

Abilene

Mall of Abilene (Mar., 1979), 100,000 Sq. Ft. With Penney's and Sears

Amarillo

Westgate Mall (Oct., 1982), 160,000 Sq. Ft With Sears and Mervyn's

Austin

Barton Creek Square (Mar., 1982), 204,000 Sq. Ft. With Penney's, Sears, Foley's and Ward's Hancock Shopping Center (Feb., 1964), 88,000 Sq. Ft. With Sears





Stores in Operation-1986



Beaumont

Parkdale Mall (Feb., 1986), 160,000 Sq. Ft. With Penney's, Sears, Ward's and Joske's

Brownsville

Amigoland Mall (Nov., 1973), 107,000 Sq. Ft. With Penney's and Ward's

Bryan-College Station

Post Oak Mall (Mar., 1982), 100,000 Sq. Ft. With Sears and Foley's

Corpus Christi

Padre Staples Mall (Aug., 1986), 200,000 Sq. Ft. With Penney's and Foley's

Denton

Golden Triangle Mall (Sept., 1980), 100,000 Sq. Ft. With Penney's, Sears and Ward's

El Paso

Cielo Vista Mail (Nov., 1974), 193,000 Sq. Ft. With Penney's, Sears, Joske's and Ward's

Harlingen

Valle Vista Mall (Aug., 1983), 100,000 Sq. Ft. With Sears

Killeen

Killeen Mall (July, 1981), 70,000 Sq. Ft. With Penney's and Sears

Laredo

Mall Del Norte (Sept., 1977), 88,000 Sq. Ft. With Sears and Ward's

Longview

Longview Mall (Aug., 1978), 100,000 Sq. Ft. With Penney's and Sears

Lubbock

South Plains Mall (July, 1972 and July, 1986), 256,000 Sq. Ft. With Penney's and Sears

McAllen

La Plaza Mall (Mar., 1978), 140,000 Sq. Ft. With Penney's, Sears and Jones & Jones

Midland

Midland Park Mall (July, 1980), 100,000 Sq. Ft. With Penney's and Sears

Odessa

Permian Mall (Feb., 1980), 100,000 Sq. Ft. With Penney's and Sears

Port Arthur

Central Mall (July, 1986), 60,000 Sq. Ft. With Penney's and Sears

San Angelo

Sunset Mall (July, 1986), 48,000 Sq. Ft. With Penney's and Sears

San Antonio

Central Park Mall (Mar., 1968), 140,000 Sq. Ft. With Sears

Ingram Park Mall (Oct., 1979), 180,000 Sq. Ft. With Penney's, Sears, Joske's and Foley's Military Drive Plaza (Aug., 1968), 82,000 Sq. Ft.

With Sears

Windsor Park Mall (July, 1976), 180,000 Sq. Ft. With Penney's, Joske's and Ward's

Sherman

Midway Mall (Mar., 1986), 70,000 Sq. Ft. With Sears and Mervyn's

Temple

Temple Mall (Aug., 1976), 67,000 Sq. Ft. With Penney's and Sears

Texarkana

Central Mall (Aug., 1978), 100,000 Sq. Ft. With Penney's and Sears

Tvlei

Broadway Square (Feb., 1974), 107,000 Sq. Ft. With Penney's and Sears

Victoria

Victoria Mall (Mar., 1981), 70,000 Sq. Ft. With Sears

Wacc

Richland Fashion Mall (Mar., 1980), 100,000 Sq. Ft. With Penney's and Sears

Wichita Falls

Sikes Senter (Oct., 1974), 110,000 Sq. Ft. With Penney's

DALLAS FORT WORTH METROPLEX

Arlington

Forum 303 Mall (Mar., 1974), 170,000 Sq. Ft. With Ward's

Dallas

Valley View Shopping Center (Oct., 1979), 300,000 Sq. Ft. With Sears, Sanger-Harris and Bloomingdale's

Fort Worth

Ridgmar Mall (Feb., 1976), 204,000 Sq. Ft. With Penney's, Sears and Neiman-Marcus

Seminary South Shopping Center (Oct., 1978), 127,000 Sq. Ft. With Penney's and Sears

Tandy Center (Oct., 1977), 106,000 Sq. Ft.

Hurst

Northeast Mall (Mar., 1974), 205,000 Sq. Ft. With Penney's, Sears and Ward's

Irving (Dallas)

Irving Mall (Mar., 1984), 130,000 Sq. Ft. With Penney's, Sears, Joske's and Mervyn's

Mesquite (Dallas)

Town East Shopping Center (Aug., 1982), 190,000 Sq. Ft. With Sears, Sanger-Harris and Joske's

Plano (Dallas)

Collin Creek Mall (July, 1981), 195,000 Sq. Ft. With Penney's, Sears, Lord & Taylor and Sanger-Harris

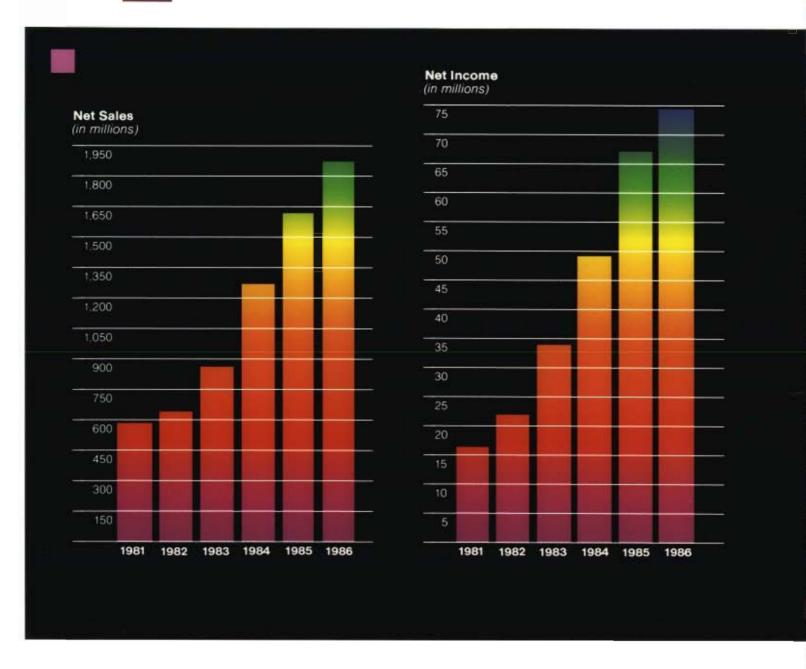
Richardson (Dallas)

Richardson Square (Oct., 1979), 160,000 Sq. Ft. With Sears, Joske's and Ward's



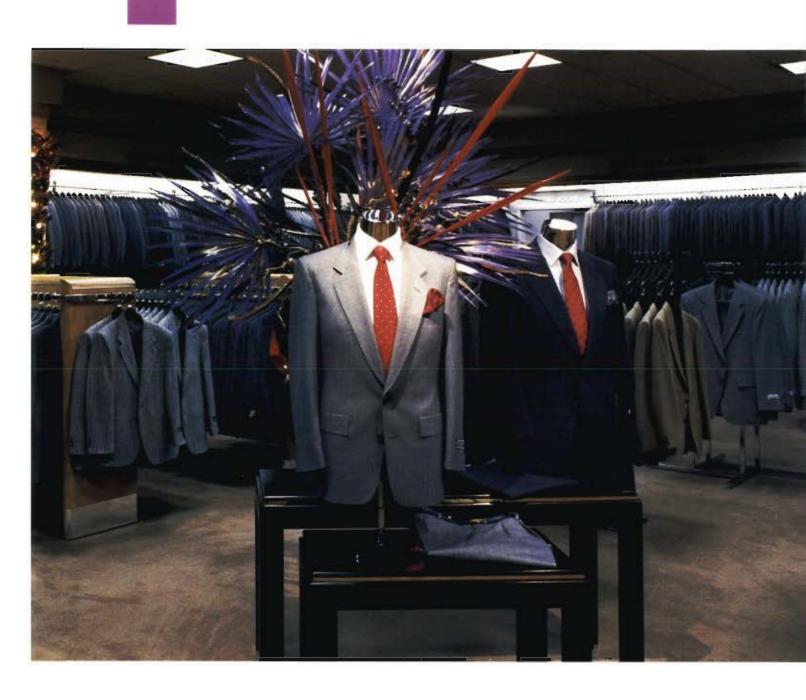


1986 Financial Highlights





1986 Financial Report





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Table of Selected Financial Data Dillard Department Stores, Inc.

(Dollars in thousands except per share data)	1986	1985	19841	1983	1982	1981
Net Sales Percent Increase Cost of Sales Percent of Sales Interest and Debt Expense Income Before Taxes Income Taxes Net Income	\$ 1,851,423	\$ 1,601,357	\$ 1,277,280	\$ 847,485	\$ 711,323	\$ 592,867
	15.6	25.4	50.7	19.1	20.0	25.9
	1,179,157	1,016,199	811,522	532,058	444,916	374,247
	63.7	63.5	63.5	62.8	62.5	63.1
	48,007	45,022	37,720	23,067	26,668	25,223
	131,858	114,903	87,608	59,939	35,256	27,259
	57,400	48,000	38,050	25,800	13,300	11,000
	74,458	66,903	49,558	34,139	21,956	16,259
Per Common Share Net Income Dividends Book Value Average Number of Shares Outstanding	2.35	2.29	1.82	1.38	.93	.69
	.12	.105	.0875	.075	.05	.05
	17.31	12.42	10.24	7.36	5.81	4.94
	31,692,698	29,206,490	27,314,576	24,692,436	23,533,912	23,490,064
Accounts Receivable — Total Merchandise Inventories Property and Equipment Total Assets	472,639	387,612	333,830	195,274	161,490	126,083
	385,509	305,781	252,239	150,829	119,348	99,291
	513,421	394,189	325,736	182,921	169,910	153,502
	1,213,355	861,601	748,187	451,110	372,486	343,954
Long-Term Debt Mortgage Debt Capitalized Lease Obligations Deferred Income Taxes — Total Stockholders' Equity	186,975	55,680	71,835	13,690	26,645	48,500
	113,344	130,390	122,826	79,344	80,391	65,208
	13,695	14,676	15,575	16,411	17,330	18,291
	116,549	88,649	72,778	49,738	41,050	31,550
	556,617	362,333	298,353	185,553	137,291	116,403
Number of Employees — Average Number of Stores Opened Acquired Closed Total — End of Year	18,412 8 11 5 115	16,010 8 — 101	12,965 3 25 1 93	8,940 1 — 66	8,280 11 — 2 65	7,050 6 56

¹1984 — 53 Weeks



Store for store sales increase by quarter for the past five years as follows: 1986 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1985 1985 1984 1985		1986	1985	1984	1983	1982
1986 1985 1984 1983 1982 1985 1984 1983 1982 1985 1984 1983 1982 1985 1985 1984 1983 1982 1985	Sales Increase	15.6%	25.4%	50.7%	19.1%	20.0%
First Quarter	Store for store sales increase by quarter for the past five y					
Second Quarter		1986	1985	1984	1983	1982
Third Quarter	First Quarter	4.3%		19.4%	3.2%	
Fourth Quarter 4.3 11.1 15.1 22.3 1.8 refer 4.3 12.3 12.3 14.8 15.3 4.5 The sales mix for the last five years by category and percent of total sales has been: Dwned Departments 1986 1985 1984 1983 1982	Second Quarter	2.2	14.9	14.4	10.7	
The sales mix for the last five years by category and percent of total sales has been:	Third Quarter	4.4	10.1	11.4	19.3	1.4
The sales mix for the last five years by category and percent of total sales has been: Damed Departments 1986 1985 1984 1983 1982	Fourth Quarter	4.3		15.1		
Owned Departments 1986 1985 1984 1983 1982 Women's Clothing & Accessories 44.4% 42.3% 39.9% 37.7% 36.6% Juniors' & Children's Clothing & Accessories 12.7 12.9 13.2 14.3 14.5 Men's Clothing & Accessories 17.1 16.6 16.3 15.7 15.4 Home Accessories 11.3 12.6 13.8 15.2 15.3 Furniture, TV & Appliances 6.5 7.1 7.6 8.1 8.5 Furniture, TV & Appliances 92.0 91.5 90.8 91.0 90.3 Leased Departments 92.0 91.5 90.8 91.0 90.3 Shoes 4.3 4.2 4.4 4.6 5.0 Fine Jewelry 2.4 2.3 2.6 2.7 2.7 Other 1.3 2.0 2.2 1.7 2.0 Motal 10.0% 10.0% 10.0% 10.0% 10.0% 10.0% At year end th	/ear	3.9	12.3	14.8	15.3	4.5
Women's Clothing & Accessories 44.4% 42.3% 39.9% 37.7% 36.6% Juniors' & Children's Clothing & Accessories 12.7 12.9 13.2 14.3 14.5 Men's Clothing & Accessories 17.1 16.6 16.3 15.7 15.4 Home Accessories 11.3 12.6 13.8 15.2 15.3 Furniture, TV & Appliances 6.5 7.1 7.6 8.1 8.5 Furniture, TV & Appliances 92.0 91.5 90.8 91.0 90.3 Leased Departments 4.3 4.2 4.4 4.6 5.0 Shoes 4.3 4.2 4.4 4.6 5.0 Pine Jewelry 2.4 2.3 2.6 2.7 2.7 Other 1.3 2.0 2.2 1.7 2.0 Other 1.3 2.0 2.2 1.7 2.0 Total 100.0% 100.0% 100.0% 100.0% 100.0% At year end there were 115 stores in operation. Gross	The sales mix for the last five years by category and perce	nt of total sai	es has been:			
Substitute Sub	Owned Departments	1986	1985	1984	1983	1982
Duniors' & Children's Clothing & Accessories 12.7 12.9 13.2 14.3 14.5	Nomen's Clothing & Accessories	44.4%	42.3%	39.9%	37.7%	36.6%
Men's Clothing & Accessories 17.1 16.6 16.3 15.7 15.4 Home Accessories 11.3 12.6 13.8 15.2 15.3 Furniture, TV & Appliances 6.5 7.1 7.6 8.1 8.5 Leased Departments 92.0 91.5 90.8 91.0 90.3 Leased Departments 4.3 4.2 4.4 4.6 5.0 Shoes 4.3 4.2 4.4 4.6 5.0 Fine Jewelry 2.4 2.3 2.6 2.7 2.7 Other 1.3 2.0 2.2 1.7 2.0 Motes 8.5 9.2 9.0 9.7 Motes 100.0%		12.7	12.9	13.2	14.3	14.5
Home Accessories 11.3 12.6 13.8 15.2 15.3 Furniture, TV & Appliances 6.5 7.1 7.6 8.1 8.5		17.1	16.6	16.3	15.7	15.4
Furniture, TV & Appliances 6.5 7.1 7.6 8.1 8.5 92.0 91.5 90.8 91.0 90.3		11.3	12.6	13.8	15.2	
Page						
Shoes	4. 4. 4. 4. 4. 4. 4. 4. 4. 4. 4. 4. 4. 4					
Fine Jewelry 2.4 2.3 2.6 2.7 2.7 Other 1.3 2.0 2.2 1.7 2.0 8.0 8.5 9.2 9.0 9.7 Total 100.0% 100.0% 100.0% 100.0% 100.0% At year end there were 115 stores in operation. Gross square footage of these stores is 15,588,000. Annual gross square footage of stores in operation at year end and approximate sales per gross square foot for the past five years are: 1986 1985 1984 1983 1982 Sales (000) \$1,851,423 \$1,601,357 \$1,277,280 \$847,485 \$711,323 Gross Square Footage (000) 15,588 13,551 12,532 8,471 8,350 Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982	eased Departments	02.0	01.0	00.0	01.0	00.0
Other 1.3 2.0 2.2 1.7 2.0 8.0 8.5 9.2 9.0 9.7 Total 100.0% 100.0% 100.0% 100.0% 100.0% At year end there were 115 stores in operation. Gross square footage of these stores is 15,588,000. Annual gross square footage of stores in operation at year end and approximate sales per gross square foot for the past five years are: 1986 1985 1984 1983 1982 Sales (000) \$1,851,423 \$1,601,357 \$1,277,280 \$847,485 \$711,323 Gross Square Footage (000) \$15,588 13,551 12,532 8,471 8,350 Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982	Shoes	4.3	4.2	4.4	4.6	5.0
Rotal	Fine Jewelry	2.4	2.3	2.6	2.7	2.7
Total	Other	1.3	2.0	2.2	1.7	2.0
At year end there were 115 stores in operation. Gross square footage of these stores is 15,588,000. Annual gross square footage of stores in operation at year end and approximate sales per gross square foot for the past five years are: 1986 1985 1984 1983 1982		8.0	8.5	9.2	9.0	9.7
footage of stores in operation at year end and approximate sales per gross square foot for the past five years are: 1986 1985 1984 1983 1982	īotal	100.0%	100.0%	100.0%	100.0%	100.0%
1986 1985 1984 1983 1982 Sales (000) \$1,851,423 \$1,601,357 \$1,277,280 \$847,485 \$711,323 Gross Square Footage (000) 15,588 13,551 12,532 8,471 8,350 Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982						square
Sales (000) \$1,851,423 \$1,601,357 \$1,277,280 \$847,485 \$711,323 Gross Square Footage (000) 15,588 13,551 12,532 8,471 8,350 Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982	ootage of stores in operation at year end and approximate s			,	,	
Gross Square Footage (000) 15,588 13,551 12,532 8,471 8,350 Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982		1986	1985	1984	1983	1982
Sales per Square Foot \$119 \$118 \$102 \$100 \$85 Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982						
Cost of Sales Cost of sales for the last five years has been: 1986 1985 1984 1983 1982		,				
Cost of sales for the last five years has been: 1986 1985 1984 1983 1982	Sales per Square Foot	\$119	\$118	\$102	\$100	\$85
1986 1985 1984 1983 1982						
	Cost of sales for the last five years has been:	1986	1985	1984	1983	1982
				-		

During 1986, the cost of sales percentage includes a credit of \$5,100,000, which was the LIFO adjustment for the year. 1985 included a credit of \$400,000; 1984 included a credit of \$500,000. In 1983 there was a charge of \$1,400,000 and in 1982 a charge of \$400,000. At January 31, 1987, the LIFO reserve was \$2,500,000.



Ex	pe	n	ses
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Expenses as a percent of sales have varied for the past five years as follows:

	1986	1985	1984	1983	1982
Advertising, Selling, Administrative & General Depreciation & Amortization Rentals Interest & Debt Expense	25.7%	25.7%	25.5%	25.8%	26.8%
	2.8	2.5	2.4	2.6	2.6
	2.0	2.0	2.0	2.4	2.5
	2.6	2.8	3.0	2.7	3.7

Real Estate

At year end the Company owned 54 store buildings:

At year end the Company ow McCain Mall North Little Rock
Winrock Center Albuquerque
Crossroads Mall Oklahoma City
South Park Mall Shreveport
Ridgmar Mall Fort Worth
Windsor Park Mall San Antonio
Cortana Mall

Cortana Mall Baton Rouge Woodland Hills Tulsa Northeast Mall

Fort Worth
Forum 303
Arlington
Heritage Park Mall
Midwest City

Valley View Shopping Center Dallas Quail Springs Mall

Oklahoma City
Mall of Memphis
Memphis

Hot Springs Mall Hot Springs Post Oak Mall Bryan-College Station Barton Creek Square

Town East Shopping Center

Chesterfield Mall St. Louis

Jamestown Mall St. Louis

South County Center St. Louis

St. Clair Square Fairview Heights (St. Louis)

St. Louis Galleria St. Louis

Independence Plaza Kansas City

Ward Parkway Center Kansas City

Irving Mall Dallas

Washington Park Mall Bartlesville

Bartlesville Fiesta Mall Phoenix Metro Center Phoenix

Paradise Valley Phoenix

Westridge Mall Phoenix

Tucson Mail Tucson Fashion Show Mall

Las Vegas

Meadows Center Las Vegas Capitol Mall Jefferson City Central Mall

Central Mall Fort Smith Christown Mall Phoenix

Pecanland Mall Monroe

Villa Linda Mall Santa Fe

Columbia Mall Columbia Mall of Abilene

Abilene

Ingram Park Mall San Antonio

Richardson Square

Richardson
Parkdale Mall
Beaumont
Bannister Mall
Kansas City

Indian Springs Center

Kansas City

Metro North Mall

Kansas City
Mission Shopping Center

Kansas City

Oak Park Center Kansas City Midway Mall Sherman

The Pines Mall Pine Bluff

Alexandria Mall Alexandria Flagstaff Mall Flagstaff

Eastland Mall

The square footage of company owned store buildings is 8,168,000.

Buildings now leased by the Company on which purchase options exist are:

Sooner Fashion Mall

Norman Westgate Mall Amarillo Cielo Vista Mall El Paso

Broadway Square

Tyler



	1986	1985	1984	1983	1982
Sales	15.6% 21.9	25.4% 16.1	50.7% 70.9	19.1% 20.9	20.0% 28.1
The five year compound annual growth rate has been 25.	6% for sales and	d 30.3% for re	ceivables.		
The composition of total sales for the past five years has b	een: 1986	1985	1984	1983	1982
Dillard's Charge		1985 50.3%	1984 50.4%	1983 48.0%	1982 48.4%
The composition of total sales for the past five years has be a sale of the past five years has been a sale of the past five years have a sale of the past five years ha	1986				

Liquidity and Source of Funds

During the year several long-term financing transactions were accomplished. The proceeds were used to fund acquisitions and for general corporate purposes. They were:

April	Common stock offering of 2,949,121 Class A shares	\$123,492,000
April	8.375% Notes due April 15, 1996	50,000,000
November	8.125% Notes due November 1, 1993	50,000,000
January	8.0% Notes due January 15, 1999	50,000,000
January	7.375% Notes of Dillard Investment Co., Inc. due January 15, 1992	50,000,000

Substantially all of the accounts receivable of the Company are sold to Dillard Investment Co., Inc. (DIC), a wholly owned unconsolidated finance subsidiary, which is obligated to purchase the receivables. At year end, DIC had lines of credit or borrowing arrangements totalling \$360,000,000 to fund the purchase of the accounts receivable. DIC is required to advance to the Company, at the Company's request, an amount equal to 95% of the accounts receivable purchased. The arrangements between the Company and DIC require that the Company maintain an equity within DIC equal to 15% of the total borrowings by DIC. For the past several years, DIC has sold commercial paper in the public market. At year end commercial paper outstanding was \$111,370,000.



Impact of Tax Reform

The enactment of the Tax Reform Act of 1986 affected and will continue to affect the Company in several areas. The impact of the repeal of the investment tax credit (ITC) was offset to some degree in the Company's current fiscal year by the ITC transition rules. The current year difference in ITC under the prior law and ITC under the transition rules was not material. This aspect of the Act will lessen the increase in future cash flows that would otherwise result from lower tax rates. The combination of lower tax rates, repeal of ITC and lengthening of depreciation lives will increase the real cost of future capital expenditures. However, this will not have a significant effect on the Company's decisions to build or remodel stores.

The provision in the new tax law requiring capitalization of certain buying and merchandising costs will increase the future taxable income of the Company. Also, the new tax law requires the use of the direct charge off method for bad debt deductions rather than the reserve method currently being used by the Company. Neither provision is expected to have a material effect on the cash flow of the Company.

Currently, the Company reports taxable income from charge sales on the installment method. Under the new tax law, this method of reporting will be phased out over four years resulting in increased tax payments. However, the Company has sufficient credit facilities available to cover the increased cash flow needed to liquidate the amount due.

Overall, management feels that the positive impact of the new reduced rates will more than offset the negative effects of the changes in the tax law on current taxes payable.

Impact of Inflation and Changing Prices

Although inflation has slowed in recent years, it is still a factor in our economy and the Company continues to seek ways to cope with its impact. Operationally, the Company has concentrated on productivity improvements in pricing, expense control and asset management. Financial reporting systems are present to provide accurate assessment of real operating performance.

The Company uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of goods sold reported in the financial statements approximates current costs and thus reduces the distortion in reported income due to the increasing costs associated with inflation. Consequently, the historical financial statements already provide in real terms a cost to replace the capital invested in inventories each year.

The charges to operations for depreciation expense represent the allocation of historical costs incurred over past years and are significantly less than if they were based on the cost of replacing current store and warehouse facilities. Assets acquired in prior years will be replaced at higher costs but this will take place over many years. These new assets will result in higher depreciation charges; but in many cases there will be operating cost savings as well.

Present tax laws do not allow deductions for adjustments for the impact of inflation. Thus, taxes are levied on the Company at rates which, in real terms, exceed the established statutory rates. In general, during periods of inflation, this tax policy results in a tax on shareholders' investment in the Company.



Stockholders and Board of Directors Dillard Department Stores, Inc. Little Rock, Arkansas

We have examined the consolidated balance sheets of Dillard Department Stores, Inc. and consolidated subsidiary as of January 31, 1987 and February 1, 1986, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended January 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dillard Department Stores, Inc. and consolidated subsidiary at January 31, 1987 and February 1, 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + Whinney

Little Rock, Arkansas March 12, 1987



(In thousands of dollars)	January 31 1987	February 1 1986
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	\$ 22,666	\$ 20,856
Trade accounts receivable—Note C	28,821 195,745	23,698 56,972
Merchandise inventories—Note A	385,509	305,781
Supplies and prepaid expenses	3,027	1,555
TOTAL CURRENT ASSETS	635,768	408,862
INVESTMENTS AND OTHER ASSETS		
Equity in net assets of Dillard Investment Co., Inc.	50,130	41,284
Other	4,091	6,449
	54,221	47,733
PROPERTY AND EQUIPMENT—Notes D and J	10 700	15 501
Land and land improvements Building and leasehold improvements	18,708 282,151	15,591 200,468
Furniture, fixtures and equipment	367,540	295,451
Buildings under construction	10,972	13,949
Less accumulated depreciation and amortization	(165,950)	(131,270)
	513,421	394,189
BUILDINGS UNDER CAPITAL LEASES, less amortization		
(1987 — \$12,767; 1986 — \$11,895)—Note I	9,945	10,817
	<u>\$1,213,355</u>	<u>\$861,601</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES	. .=0.===	* * * * * * * * * *
Trade accounts payable and accrued expenses — Note E	\$ 178,555 24,572	\$164,367 25,341
Deferred income taxes	62,956	51,770
Current portion of long-term debt	22,067	19,266
Current portion of capital lease obligations	981	899
TOTAL CURRENT LIABILITIES	289,131	261,643
LONG-TERM DEBT, less current portion — Note D		
Notes payable	186,975	55,680
Real estate and mortgage notes	113,344	130,390
CARITAL LEAGE OBLIGATIONS have	300,319	186,070
CAPITAL LEASE OBLIGATIONS, less current portion — Note I	13,695	14,676
DEFERRED INCOME TAXES	53,593	36,879
STOCKHOLDERS' EQUITY — Notes D, G and H Preferred stock	440	440
Common stock	40,329	36,575
Additional paid-in capital	219,666	99,774
Retained earnings	296,485	225,812
Less treasury stock, at cost	(303)	(268)
	556,617	362,333
OPERATING LEASES AND COMMITMENTS — Note J	44.040.000	
	\$1,213,355	\$861,601
See notes to consolidated financial statements.		



		Year Ended	
(In thousands of dollars except per share data)	January 31 1987	February 1 1986	February 2 1985
Net sales, including sales of leased departments	\$1,851,423 71,664	\$1,601,357 59,506	\$1,277,280 40,924
	1,923,087	1,660,863	1,318,204
Costs and expenses: Cost of sales Advertising, selling, administrative and general expenses Depreciation and amortization Rentals — Note J Interest and debt expense — Note D	1,179,157 476,642 51,295 36,128 48,007	1,016,199 412,222 39,917 32,600 45,022	811,522 325,624 30,435 25,295 37,720
	1,791,229	1,545,960	1,230,596
INCOME BEFORE INCOME TAXES	131,858	114,903	87,608
Federal and state income taxes — Note F	57,400	48,000	38,050
NET INCOME	74,458	66,903	49,558
Retained earnings at beginning of year	225,812	161,986	114,824
	300,270	228,889	164,382
Cash dividends: Preferred stock, \$5 a share	22	22	22
1986 — \$.105 a share; 1985 — \$.0875 a share	3,763	3,055	2,374
	3,785	3,077	2,396
RETAINED EARNINGS AT END OF YEAR	\$ 296,485	\$ 225,812	\$ 161,986
Net income per common share	\$2.35	\$2.29	\$1.82

See notes to consolidated financial statements.



		Year Ended	
(In thousands of dollars)	January 31 1987	February 1 1986	February 2 1985
SOURCE OF FUNDS		<u>-</u>	
Net income	\$ 74,458	\$ 66,903	\$ 49,558
Depreciation and amortization	51,295	39,917	30,435
Deferred income taxes	16,714	9,839	5,853
Net income of Dillard Investment Co., Inc.	(3,846)	(4,185)	(3,483)
TOTAL FROM OPERATIONS	138,621	112,474	82,363
Acquisition of businesses, net of working capital acquired of \$85,469 in 1987 and \$136,027 in 1985 — Note B:			
Long-term debt	4,598	_	100,000
Common stock issued or sold	123,492	_	65,473
Property and equipment	(57,390)	_	(100,316)
Other assets	 13,028	14,052	(117) 7,325
Long-term borrowings	158,859	10,672	19,700
Exercise of stock options	154	154	165
Other — net	2,358	(3,084)	(2,182)
	383,720	134,268	172,411
APPLICATION OF THE PA			
APPLICATION OF FUNDS Additions to property and equipment	125,293	121,543	79,311
maturities on long-term debt	49,208	19,263	18,073
maturities on capital lease obligations	981	899	836
Additional investment in Dillard Investment Co., Inc.	5,000	1,650	10,525
Cash dividends	3,785	3,077	2,396
Purchase of treasury stock	35		
	184,302	146,432	111,141
INCREASE (DECREASE) IN WORKING CAPITAL	\$199,418	\$ (12,164)	\$ 61,270
CHANGES IN COMPONENTS OF WORKING CAPITAL Increase (decrease) in current assets:			
Cash and short-term investments	\$ 1,810	\$ (7,743)	\$ 5,451
Trade accounts receivable	5,123	(11,184)	15,973
Receivable from Dillard Investment Co., Inc.	138,773	2,637	15,336
Merchandise inventories	79,728	53,542	101,410
Supplies and prepaid expenses	1,472	(331)	733
Increase (decrease) in current liabilities:	226,906	36,921	138,903
Trade accounts payable and accrued expenses	14,188	30,265	44,614
Federal and state income taxes	(769)	11,528	1,847
Deferred income taxes	11,186	6,032	17,187
Current portion of long-term debt	2,801	1,197	14,069
Current portion of capital lease obligations	82	63	(84)
	27,488	49,085	77,633
INCREASE (DECREASE) IN WORKING CAPITAL	\$199,418	\$ (12,164)	\$ 61,270

See notes to consolidated financial statements.



Note A:

Description of Business and Summary of Significant Accounting Policies **Description of Business:** The Company operates retail department stores located primarily in the Southwest and Midwest. The Company's fiscal year ends on the Saturday nearest January 31. As a result, the years ended January 31, 1987 and February 1, 1986 contain 52 weeks and the year ended February 2, 1985 contains 53 weeks.

Consolidation: The accompanying consolidated financial statements include the Company and its wholly owned real estate subsidiary, Construction Developers, Inc. (which leases property principally to the Company). Intercompany accounts and transactions are eliminated upon consolidation.

Condensed financial information of the wholly owned unconsolidated finance subsidiary, Dillard Investment Co., Inc. (DIC), is presented below:

(In thousands of dollars)	January 31 1987	February 1 1986
ASSETS		
Cash	\$ 22,781	\$ 17,641
Accounts receivable purchased	436,618	357,914
Prepaid expenses	760	514
	\$460,159	\$376,069
LIABILITIES AND EQUITY OF PARENT		
Commercial paper and long-term debt	\$211,176	\$274,739
Payable to parent	195,745	56,972
Accrued liabilities	3,108	3,074
Equity of parent	50,130	41,284
	\$460,159	\$376,069
		<u>_</u>

	rear Erided		
(In thousands of dollars)	January 31 1987	February 1 1986	February 2 1985
Interest income	\$26,362	\$25,339	\$21,046
Interest expense	19,141	17,500	14,563
Income before income taxes	7,126	7,755	6,452

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Income before income taxes of DIC, all of which is derived from the Company, is deducted from interest expense in the accompanying income statements. The provision for income taxes of DIC is included in consolidated income tax expense.

Undistributed earnings of DIC were \$22,790,000 and \$18,944,000 as of January 31, 1987 and February 1, 1986, respectively, and are included in retained earnings of the Company as of those dates.

The amount of DIC's borrowing facilities to provide funds for the purchase of accounts receivable from the parent totalled \$360,000,000 at January 31, 1987, consisting of line of credit and commercial paper facilities of \$260,000,000 and other debt securities of \$100,000,000. At February 1, 1986, total borrowing facilities consisted of line of credit and commercial paper facilities of \$225,000,000 and other debt securities of \$50,000,000.

Net customer accounts receivable sold by the Company to DIC during the years ended January 31, 1987, February 1, 1986 and February 2, 1985 were approximately \$1,114,400,000, \$947,774,000 and \$764,528,000, respectively.



Note A:

Description of Business and Summary of Significant Accounting Policies (continued) **Revenues:** Retail sales are recorded on the accrual basis and include leased department sales of \$147,612,000, \$136,104,000 and \$117,783,000 for the years ended January 31, 1987, February 1, 1986 and February 2, 1985, respectively. Credit service charges are recorded monthly on the basis of billed customer account balances. Profits on installment sales are recognized in full for accounting purposes when the sales are recorded.

Costs, Expenses, and Related Balance Sheet Accounts: The retail last-in, first-out (LIFO) inventory method is used to value merchandise inventories, with such LIFO merchandise inventories not being carried in excess of current cost. Under this method, at January 31, 1987, February 1, 1986 and February 2, 1985, the LIFO cost of merchandise inventories was approximately \$2,500,000, \$7,600,000 and \$8,000,000, respectively, less than current cost.

Property and equipment owned by the Company is recorded at cost, which includes related interest costs incurred. Depreciation is computed by the straight-line method for financial reporting purposes. For tax reporting purposes, accelerated depreciation or cost recovery methods are used and the related deferred income taxes are included in noncurrent deferred federal income taxes on the balance sheet.

Properties leased by the Company under lease agreements which are determined to be capital leases are stated at an amount equal to the present value of the minimum lease payments during the lease term, less accumulated provision for amortization. The properties under capital leases are being amortized on the straight-line method over the related lease terms. The provision for amortization of leased properties is included in depreciation and amortization expense.

Pre-opening costs of new stores are expensed in the fourth quarter of the year such costs are incurred.

Income Taxes: For tax reporting purposes, the installment method of reporting profit on revolving credit and installment sales is used and the related deferred income taxes are classified as a current liability on the balance sheet. Investment tax credits are accounted for by the flow-through method.

Earnings Per Common Share: Earnings per share have been computed based on the weighted average of Class A and Class B Common shares outstanding, after deducting preferred dividend requirements and giving effect to outstanding stock options when material.

Notes To Consolidated Financial Statements

Note B: Acquisitions

On January 29, 1984, the Company acquired substantially all of the operating assets of the Stix, Baer & Fuller Division (Stix) of Associated Dry Goods Corporation, including real estate, 12 department stores and one warehouse. The aggregate purchase price of the assets acquired was approximately \$93,000,000 and included 1,200,000 shares of Class A Common Stock. This acquisition has been accounted for as a purchase with the operations of Stix included in the Company's consolidated operations from January 29, 1984.

On September 30, 1984, the Company acquired substantially all of the operating assets of the Diamond's (Diamond's) and John A. Brown (Brown) divisions of Dayton Hudson, including 18 stores and one warehouse. The aggregate purchase price of the Diamond's and Brown assets acquired was approximately \$143,000,000. The Company sold 2,674,438 shares of Class A Common Stock in connection with the financing of this acquisition. This acquisition has been accounted for as a purchase with the operations of Diamond's and Brown included in the Company's consolidated operations from September 30, 1984.

On March 3, 1986, the Company acquired from R.H. Macy & Co., Inc. (Macy's) substantially all of the operating assets relating to 12 Macy's department stores, two of which were subsequently sold. The Company paid Macy's approximately \$136,400,000 in cash, which was generated primarily from the sale of 2,949,121 shares of Class A Common Stock, and assumed mortgage debt of approximately \$4,600,000. This acquisition has been accounted for as a purchase with the operations of Macy's included in the Company's consolidated operations from March 3, 1986. The following unaudited pro forma combined results of operations give effect to the Macy's acquisition as if it had taken place at the beginning of each year presented:

(In thousands of dollars except per share data)	January 31 1987	February 1 1986
Net sales	\$1,857,814	\$1,739,631
Net income	74,493	71,794
Net income per share	2.33	2.26

Note C: Trade Accounts Receivable

By agreement, the Company sells (subject to reassignment of accounts in default) to DIC, substantially all of its customer accounts receivable. Trade accounts receivable consist of the following:

(In thousands of dollars)	January 31 1987	February 1 1986
Trade accounts receivable	\$472,639	\$387,612
retained interest in such accounts)	(436,618)	(357,914)
Allowance for doubtful accounts	(7,200)	(6,000)
_	\$ 28,821	\$ 23,698



Note D: Long-Term Debt

Long-term debt consists of the following:		
(In the coord of dellars)	January 31	February 1 1986
(In thousands of dollars)	1987	1986
Description of the transfer of the second of		
Promissory notes to institutional lenders (1): 8.22% and 8.24% notes	s –	\$ 2,550
8.875% notes, payable in annual installments	Ψ —	Ψ 2,000
of \$755,000 through 1992	4,530	5,285
10.375% note, due in annual installments		
of \$400,000 through 1995	3,600	4,000
Unsecured notes to banks at rates ranging from		
7.5% to 13.25% payable in annual installments aggregating \$15,000,000 through 1989	45,000	60,000
Other unsecured notes:	45,000	00,000
8.0% notes due January 15, 1999	50,000	_
8.125% notes due November 1, 1993	50,000	_
8.375% notes due April 15, 1996 (1)	50,000	
	203,130	71,835
Current portion	(16,155)	<u>(16,155)</u>
	186,975	55,680
Mortgage notes, payable monthly or quarterly		
(some with balloon payments) over periods up to 31		
years from inception and bearing interest at 5.625% to 13.375% (2)	119,256	108,501
Real estate note	119,230	25,000
	119,256	133,501
Current portion	(5,912)	(3,111)
Server person in the first transfer of the f	113,344	130,390
	\$300,319	\$1 <u>86,070</u>

- (1) The related loan agreements limit the parent company's funded debt and long-term lease obligations, unless certain financial tests are met, and require the maintenance of prescribed levels of working capital. The agreements also contain provisions which restrict the payment of dividends and the purchase of capital stock for cash. Under the most restrictive provision, in excess of \$95,000,000 of retained earnings were available for the payment of dividends at January 31, 1987.
- (2) Buildings (one of which is located on leased land), land, land improvements and equipment with a carrying value of \$108,199,000 at January 31, 1987 are pledged as collateral on these notes.

Maturities of long-term debt over the next five years are \$22,067,000, \$18,093,000, \$18,273,000, \$3,474,000 and \$13,109,000.



Note D: Long-Term Debt (continued)

Interest and debt expense consists of the following:

(In thousands of dollars)	January 31 1987	February 1 1986	February 2 1985
Long-term debt:			
Interest	\$24,177	\$24,267	\$20,476
Amortization of debt expense	72	16	16
	24,249	24,283	20,492
Capital lease obligations	1,332	1,411	1,493
Dillard Investment Co., Inc. — net	19,236	17,584	14,594
Other	3,190	1,744	1,141
	\$48,007	\$45,022	\$37,720

Note E:

Trade Accounts Payable and Accrued Expenses

Trade accounts payable and accrued expenses are comprised of the following:

(In thousands of dollars)	January 31 1987	February 1 1986
Trade accounts payable	\$114,159	\$104,467
Taxes, other than income	16,283	13,629
Other	48,113	46,271
	\$178,555	\$164,367

Note F:

The provision for federal and state income taxes is summarized as follows:

		Year Ended	
(In thousands of dollars)	January 31	February 1	February 2
	1987	1986	1985
Federal income taxes: Current	\$25,000	\$27,000	\$13,500
	27,900	17,000	21,550
State income taxes	52,900	44,000	35,050
	4,500	4,000	3,000
	\$57,400	\$48,000	\$38,050

A reconciliation between the effective income tax rate and the statutory federal income tax rate is presented below:

		Year Ended	
(In thousands of dollars)	January 31	February 1	February 2
	1987	1986	1985
Income tax at the statutory federal rate of 46% Investment tax credits Effect of state income taxes Other	\$60,655	\$52,855	\$40,300
	(5,000)	(5,000)	(4,270)
	(2,070)	(1,840)	(1,380)
	(685)	(2,015)	400
	\$52,900	\$44,000	\$35,050

Deferred income taxes are attributable to the following items:

	,	Year Ended	
(In thousands of dollars)	January 31	February 1	February 2
	1987	1986	1985
Installment sales	\$11,038	\$ 8,572	\$18,928
	—	—	(2,603)
	4,489	1,246	1,251
Accelerated depreciation and basis differences	13,588	10,374	4,904
	(1,215)	(3,192)	(930)
Total deferred income tax provision	\$27,900	\$17,000	\$21,550

Note G: Stockholders' Equity

Capital stock is composed of the following:

		Shares Issued and Outstanding				anding	
Туре	Par Value	Shares Authorize	d	January 1987	31	February 1 1986	February 2 1985
Preferred (5% cumulative) Class A, Common Class B, Common	\$100 _ _	5,00 76,800,00 3,200,00	00	4,4 30,917,5 1,345,8	91	4,400 27,901,694 1,358,608	
			Cla	Commor ass A		k ass B	Additional Paid-In Capital
Balance at January 28, 1 Exchange of 53,944 st Issuance of 60,000 sh	nares		\$29,	737,730 67,430	\$1	,852,100 (67,430)	\$38,966,595 —
stock option plan Issuance of 1,200,000 connection with Stix	shares ir	<i>.</i>		75,000			90,469
Note B Sale of 2,674,438 shar connection with Dian	es in		1,	500,000		_	14,250,000
Brown acquisition —			3,	343,048		_	46,380,220
Balance at February 2, 1			34,	723,208	1	,784,670	99,687,284
Exchange of 69,128 sh				86,410		(86,410)	_
Issuance of 54,000 sh stock option plan				67,500		_	86,906
Balance at February 1, 19	986		34,	877,118	1	,698,260	99,774,190
Exchange of 12,776 sh	ares			15,970		(15,970)	_
Issuance of 54,000 sh stock option plan Sale of 2,949,121 shar connection with Mac	es in			67,500		_	86,906
acquisition — Note E			3,	686,401		_	119,804,422
Balance at January 31, 1	987		\$38,	646,989	\$1	,682,290	\$219,665,518

Holders of Class A are empowered as a class to elect one-third of the members of the Board of Directors and the holders of Class B are empowered as a class to elect two-thirds of the members of the Board of Directors. Shares of Class B are convertible at the option of any holder thereof into shares of Class A at the rate of one share of Class B for one share of Class A. Shares issued and outstanding at January 31, 1987 and February 1, 1986 include 125,605 and 124,480 shares, respectively, of Class A which are being held as treasury stock.

On November 15, 1986, the stockholders increased the authorized shares of Class A to 76,800,000 and Class B to 3,200,000.

Note H: Stock Options

In May 1984, the Company's 1984 Incentive Stock Option Plan was approved by the stockholders. This plan provides for the granting of options to purchase 600,000 shares of Class A Common Stock to certain officers and employees of the Company. The option price is the market value of the shares at the time options are granted. The options become exercisable in four equal installments on the anniversary of the grant date, beginning with the second anniversary. Options not exercised prior to the fifth anniversary of the grant date are terminated. No options were exercisable at either year end. Options available for grant under this plan at the end of fiscal 1986 and 1985 were 400,500 and 486,000, respectively.

Under the terms of a 1973 stock option plan, 54,000 options were exercised during 1986. The plan expired during 1986.

Option transactions for fiscal 1986 and 1985 are summarized as follows:

	Shares Under Option		Aggregate Option Price	
	1986	1985	1986	1985
Outstanding at beginning of year Granted Exercised	168,000 85,500 (54,000)	108,000 114,000 (54,000)	\$2,975,907 3,259,687 (154,406)	\$ 308,813 2,821,500 (154,406)
Outstanding at end of year	199,500	168,000	\$6,081,188	\$2,975,907

Note I: Capital Leases

Future minimum payments, by year and in the aggregate, under capital leases as of January 31, 1987 are as follows (thousands):

Fiscal Period

1987	\$ 2,225
1988	2,100
1989	1,786
1990	1,786
1991	1,786
After 1991	16,501
Total minimum lease payments	26,184
Less: Amount representing interest	(11,508)
Present value of net minimum lease payments	\$14,676

Note J: Operating Leases and Commitments

Rental expense consists of the following:

_	Year Ended		
(In thousands of dollars)	January 31 1987	February 1 1986	February 2 1985
Operating leases: Buildings:			
Minimum rentals	\$18,409	\$17,562	\$15,496
Contingent rentals	5,841	5,139	3,775
Equipment	10,483	8,401	4,549
Sublease revenues	_	(75)	(158)
	34,733	31,027	23,662
Contingent rentals on capital leases	1,395	1,573	1,633
	\$36,128	\$32,600	\$25,295

Contingent rentals on capital leases are based on a percentage of annual sales in excess of specified amounts. Other contingent rentals are based entirely on a percentage of sales.

The future minimum rental commitments as of January 31, 1987 for all noncancelable operating leases for buildings are as follows (thousands):

Fiscal Period

1987	\$ 17,454
1988	17,242
1989	17,051
1990	16,675
1991	16,369
After 1991	212,311
	\$297,102

Renewal options from three to twenty-five years exist on the majority of leased properties.

The Company is committed at January 31, 1987, to incur costs of approximately \$35,000,000 to complete and equip certain stores.



Note K: Other Information (Unaudited)

Quarterly Results of Operations: The following is a tabulation of the unaudited quarterly results of operations for the years ended January 31, 1987 and February 1, 1986 (thousands, except per share data):

Fisca	1986
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Three Months Ended			
May 3	August 2	November 1	January 31
\$369,899	\$409,602	\$442,935	\$628,987
140,047	147,787	164,663	219,769
11,796	11,501	13,740	37,421
.39	.36	.43	1.16
Fiscal 1985			
	\$369,899 140,047 11,796	May 3 August 2 \$369,899 \$409,602 140,047 147,787 11,796 11,501 .39 .36	May 3 August 2 November 1 \$369,899 \$409,602 \$442,935 140,047 147,787 164,663 11,796 11,501 13,740 .39 .36 .43

	Three Months Ended			
	May 4	August 3	November 2	February 1
Net sales	\$323,268 119,761 10,227 .35	\$355,895 128,795 11,075 .38	\$383,640 142,548 12,085 .41	\$538,554 194,054 33,516 1.15

The Company's LIFO adjustment for 1986 and 1985 was less than previously estimated in preparing the quarterly financial statements for the first three quarters of each year. As a result, fourth quarter net income was approximately \$3,200,000 (\$.10 per share) higher in 1986 and \$1,800,000 (\$.06 per share) higher in 1985 than it would have been had the actual LIFO adjustment been known at the beginning of the year. This impact would have been shared approximately equally by each of the three previous quarters.